

## Message Text

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ACTION SS-25

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 7157

INFO AMEMBASSY CARACAS IMMEDIATE

LIMITED OFFICIAL USE SECTION 1 OF 8 BRASILIA 6861

EXDIS

DEPT PLEASE PASS ROGERS ON EUROPEAN TRIP

FOR ROGERS AND LORD ONLY FROM FRANK

CARACAS FOR CHARLES FRANK

E.O. 11652: N/A

TAGS: PFOR, EGEN

SUBJ: DRAFT SPEECH ON FOREIGN ECONOMIC POLICY

1. BELOW IS ROUGH DRAFT OF SPEECH FOR ROGERS FOR AUGUST 25. THE SPEECH IS A TOUR D'HORIZON OF FOREIGN ECONOMIC POLICY. THE GOAL I HAD IN MIND IN WRITING THE SPEECH WAS TO SHOW THE CONSISTENCY AND COMPLIMENTARITY OF THE VARIOUS STRANDS OF OUR FOREIGN ECONOMIC POLICY AND HOW THEY ARE GUIDED BY SOME BROAD OBJECTIVES AND PHILOSOPHY REGARDING INTERNATIONAL ECONOMIC RELATIONS. BUT I DO NOT FEEL THAT I HAVE BEEN ALL THAT SUCCESSFUL IN PURSUIT OF THAT GOAL.

2. I UNDERSTAND ROGER SORENSON TALKED WITH REG BARTHOLOMEW ABOUT SOME S/P HELP ON THE SPEECH REG SUGGESTED THAT LARS HYDLE MIGHT BE ABLE TO SPEND SOME TIME ON IT. IF LARS OR SOMEONE ELSE ON S/P CAN TAKE RESPONSIBILITY, I WOULD  
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BE VERY GRATEFUL SINCE I AM LEAVING FOR

VACATION ON AUGUST 9 OR 10.

3. PERHAPS THE BEST PROCEDURE IS FOR BILL ROGERS, IF HE HAS A CHANCE, TO CABLE S/P REACTIONS TO THIS DRAFT ABOUT AUGUST 9 OR 10. I WILL GO OVER THE SPEECH TO DO SOME MORE WORK ON MY HOME ON THE AIRPLANE. I GET BACK ON AUGUST 7. THEN SOMEONE IN S/P MIGHT BE ABLE TO COORDINATE THESE COMMENTS AND PRODUCE A NEW DRAFT FOR ROGERS BY THE TIME HE RETURNS ON AUGUST 18 FROM EUROPE. AT SOME POINT EB OUGHT TO GO OVER THE DRAFT CAREFULLY -- PERHAPS THE AUGUST 18 VERSION.

4. BEGIN TEXT: UNITED STATES FOREIGN ECONOMIC POLICY: THE EMERGING CONSENSUS ON OBJECTIVES AND MEANS.

5. WHEN I ASSUMED THE JOB AS UNDERSECRETARY OF STATE FOR ECONOMIC AFFAIRS IN JUNE, I SUFFERED NO ILLUSIONS ABOUT WHAT I MIGHT ACCOMPLISH IN ONLY SIX MONTHS, THE AMOUNT OF TIME THAT I COULD REASONABLY EXPECT TO HOLD THIS POST. YET I SEIZED THE OPPORTUNITY, DESPITE THE FACT THAT I HAVE BEEN AN ACTIVE DEMOCRAT AND DESPITE THE FACT THAT THE LAST SIX MONTHS OF A PRESIDENTIAL ELECTION YEAR IS A PARTICULARLY SENSITIVE TIME POLITICALLY.

6. I SEIZED THE OPPORTUNITY BECAUSE I BELIEVE THAT IN FOREIGN ECONOMIC POLICY, WE ARE BUILDING A BROAD UNITED STATES CONSENSUS, INDEPENDENT OF PARTY AND INDEPENDENT OF REGION WITHIN THE U.S.. I BELIEVE THAT THE EMERGING CONSENSUS IS BASED ON COMMON GOALS AND OBJECTIVES AND ON THE MEANS TO ACHIEVE THESE OBJECTIVES. I BELIEVE THIS CONSENSUS PROVIDES A SOUND BASIS FOR PROGRESS, IMAGINATION, CREATIVITY, AND IMPROVEMENT IN OUR ECONOMIC AND POLITICAL RELATIONS WITH OTHER NATIONS. I BELIEVE IT PROVIDES A POLICY THAT LIMITED OFFICIAL USE

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SERVES THE BEST INTERESTS OF THE UNITED STATES PEOPLE.

7. WHAT ARE THE BASIC ELEMENTS OF THAT CONSENSUS: THE GOALS OR OBJECTIVES ON WHICH MOST AMERICANS CAN AGREE?

8. FIRST, IT IS BASED ON FREEDOM OF CHOICE AND

EXPANSION OF THE RANGE OF ALTERNATIVES FOR CHOICE. THE CONSUMER SHOULD BE ABLE TO CHOOSE FROM A WIDE RANGE OF GOODS AND SERVICES, BOTH THOSE AVAILABLE FROM DOMESTIC SOURCES AND THOSE AVAILABLE ABROAD. THE WORKER SHOULD HAVE THE MAXIMUM RANGE OF OPPORTUNITIES TO EARN HIS LIVING AND THE ENTREPRENEUR BROAD OPPORTUNITIES TO INVEST AT HOME OR ABROAD. WE BELIEVE THAT MAXIMUM ECONOMIC FREEDOMS AND OPPORTUNITIES ARE MOST CONSISTENT WITH MAXIMUM ECONOMIC GROWTH AND PROSPERITY AND WITH MAXIMUM POLITICAL FREEDOM AND OPPORTUNITY. 8A. SECOND, IT IS BASED ON A PROFOUND RESPECT FOR THE POLITICAL, ECONOMIC AND CULTURAL ASPIRATIONS OF PEOPLE IN OTHER NATIONS, EVEN IF THESE ASPIRATIONS DIFFER FUNDAMENTALLY FROM OUR OWN. IT RESPECTS THE RIGHT OF OTHER PEOPLES TO ASSERT THEIR NATIONAL SOVEREIGNTY, THEIR RIGHT OF SELF-DETERMINATION OF THE POLITICAL OR ECONOMIC SYSTEM UNDER WHICH THEY CHOSE TO LIVE, AND THE RIGHT OF NATIONS TO BE FREE FROM THE INTERVENTION OF OTHER NATIONS IN THEIR INTERNAL AFFAIRS. IT RECOGNIZES ESPECIALLY THE ASPIRATIONS OF THE DEVELOPING NATIONS TO SHARE IN THE BENEFITS OF GLOBAL ECONOMIC PROSPERITY AND TO HAVE A GREATER VOICE IN SHAPING THE WORLD ECONOMIC ORDER.

9. THIRD, IT IS BASED ON A RECOGNITION OF THE NEED FOR GOVERNMENTS TO ESTABLISH, BY INTERNATIONAL AGREEMENT OR UNDERSTANDING, RULES OF THE GAME FOR INTERNATIONAL ECONOMIC DISCOURSE. IT RECOGNIZES THE NEED TO FIND MEANS TO ENCOURAGE ADHERENCE TO THOSE RULES LIMITED OFFICIAL USE

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BY ALL PARTIES INVOLVED, INCLUDING SOVEREIGN GOVERNMENTS, PRIVATE INDIVIDUALS, AND TRANS-NATIONAL ENTERPRISES. A WORLD WITHOUT NORMS TO GUIDE INTERNATIONAL ECONOMIC BEHAVIOR WILL BE A WORLD OF RECURRING CONFLICT, OF ECONOMIC NATIONALISM, AND STAGNATION -- NOT A WORLD OF HARMONY AND PROSPERITY.

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EXDIS

DEPT PLEASE PASS ROGERS ON EUROPEAN TRIP

FOR ROGERS AND LORD ONLY FROM FRANK

CARACAS FOR CHARLES FRANK

10. THESE BASIC PRINCIPLES GUIDE AND  
EXPLAIN OUR FOREIGN ECONOMIC POLICIES IN MANY  
WAYS.

--THEY EXPLAIN OUR DETERMINATION  
TO REDUCE BARRIERS TO FLOWS OF  
INTERNATIONAL TRADE.

--THEY EXPLAIN OUR EFFORTS TO  
ESTABLISH GUIDELINES FOR INTER-  
NATIONAL INVESTMENT AND TO ENCOURAGE  
THE FREE FLOW OF INVESTMENT,  
MANAGEMENT AND TECHNOLOGY ACROSS  
INTERNATIONAL BORDERS.

--THEY EXPLAIN OUR COMMITMENT  
TO FLEXIBILITY IN RATES FOR  
FOREIGN EXCHANGE TO  
PROVIDE THE GREATEST SCOPE  
POSSIBLE FOR NATIONAL GOVERNMENTS  
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TO ATTACK DOMESTIC RECESSION  
AND UNEMPLOYMENT.

--THEY EXPLAIN OUR EFFORTS TO  
IMPROVE WORLD MARKETS IN PRIMARY  
COMMODITIES, INCLUDING FOOD,  
ENERGY AND OTHER RAW MATERIALS,  
AND TO PROMOTE RATIONAL DEVELOP-  
MENT OF THESE NATURAL RESOURCES  
ON A WORLD-WIDE BASIS.

--THEY EXPLAIN OUR EFFORTS TO FIND  
NEW FORMS OF ECONOMIC COOPERATION  
AMONG DEVELOPED COUNTRIES, AMONG  
DEVELOPED AND DEVELOPED COUNTRIES,  
AND AMONG MARKET ECONOMIES AND CENTRALLY-  
PLANNED ECONOMIES.

11. LET ME ADDRESS EACH OF THESE IN TURN.

12. TRADE POLICY

13. UNITED STATES TRADE POLICY IS CLEARLY  
POINTED IN THE DIRECTION OF LOWERED TRADE  
BARRIERS. AND THE SIGNS IN THE REST OF THE  
WORLD ARE THAT WE ARE MOVING TOWARD A GLOBAL  
CONSENSUS FAVORING A LOWERING OF TRADE BARRIERS  
AND EXPANSION OF INTERNATIONAL TRADE.

14. THE WORLD HAS SURVIVED THE MOST SERIOUS  
RECESSION SINCE THE GREAT DEPRESSION OF THE  
THIRTIES WITH THE WORLD'S TRADING SYSTEM INTACT.  
FEW WOULD HAVE PREDICTED THAT THIS WAS POSSIBLE.  
THIS RESULT WAS MADE POSSIBLE BY A SERIES OF  
EXPRESSIONS OF POLITICAL WILL AMONG THE INDUSTRIAL-  
IZED DEMOCRACIES. IN----- 1974, THE OECD  
MINISTERIAL LEVEL MEETING IN PARIS AGREED TO A TRADE  
PLEDGE, NOT TO INCREASE BARRIERS TO TRADE THAT  
WERE THREATENING AS THE WORLD STRUGGLED TO COPE  
WITH THE GREAT OIL CRISIS OF THE FALL OF 1973 AND  
THE WINTER OF 1974 AND FROM A WORLD-WIDE,  
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RAPIDLY DEEPENING RECESSION. THIS TAADE PLEDGE  
WAS RENEWED IN MAY 1975 FOR ANOTHER YEAR AND AGAIN  
FOR ANOTHER YEAR IN JUNE 1976.

15. EXPANSION OF WORLD TRADE IS AN ESSENTIAL  
ELEMENT OF AN EXPANDING WORLD ECONOMY. TRADE HAS  
BEEN VIEWED IN THE MAJOR INDUSTRIALIZED DEOMCRACIES  
AS A BIG FACTOR IN RECOVERY FROM THE 1973-75 WORLD-WIDE  
RECESSION. THE IMPORTANCE OF WORLD TRADE AND OF

ECONOMIC RECOVERY AS ESSENTIAL TO POLITICAL STABILITY IN THE INDUSTRIALIZED WORLD WAS UNDERLINED BY THE HEADS OF STATE OF THE MAJOR INDUSTRIALIZED DEMOCRACIES WHEN THEY FIRST MET AT RAMBOUILLET, FRANCE IN NOVEMBER 1975 AND AGAIN IN JUNE 1976 IN PUERTO RICO AT THE INVITATION OF PRESIDENT FORD. COMMITMENTS MADE AT THIS MEETING TO AVOID PROTECTIONIST SOLUTIONS TO THE WORLD-WIDE ECONOMIC CRISIS, COMBINED WITH THE OECD TRADE PLEDGE, HELPED KEEP THE WORLD'S TRADE SYSTEM FREE FROM A PROLIFERATION OF RESTRICTIONS AND TO AVOID THE UNHAPPY, DESTRUCTIVE TRADE COMPETITION OF THE THIRTIES.

16. WE LOOK FORWARD NOW TO PROGRESS IN THE TOKYO ROUND OF MULTILATERAL TRADE NEGOTIATIONS IN GENEVA. AT THE RAMBOUILLET SUMMIT, THE MAJOR INDUSTRIALIZED NATIONS SET THE END OF 1977 AS THE TARGET FOR THE END OF THESE NEGOTIATIONS. THE UNITED STATES HOPES THAT THESE NEGOTIATIONS COULD LEAD EVENTUALLY TO THE VIRTUAL ELIMINATION OF TRADING BARRIERS AMONG THE GATT COUNTRIES. WE HAVE PROPOSED AN AMBITIOUS TARIFF-CUTTING FORMULA WHICH WE HOPE WILL BE ADOPTED. WE HOPE THAT THE TOKYO ROUND OF NEGOTIATIONS WILL EFFECTIVELY LOWER NON-TARIFF BARRIERS TO TRADE. NON-TARIFF TRADE BARRIERS ARE, IN MANY INSTANCES MORE INJURIOUS TO TRADE AND TO INTERNATIONAL ECONOMIC WELFARE THAN TARIFFS AND THE TOKYO ROUND REPRESENTS THE FIRST, SERIOUS, MULTILATERAL EFFORT TO REDUCE THESE BARRIERS THROUGH LIMITED OFFICIAL USE

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NEGOTIATIONS.

17. THE UNITED STATES ALSO SUPPORTS SPECIAL AND DIFFERENTIATED TREATMENT FOR THE DEVELOPING COUNTRIES INTO THE WORLD TRADING SYSTEM. MANY DEVELOPING COUNTRIES ARE PLAYING AN INCREASINGLY IMPORTANT ROLE IN WORLD TRADE. THEY ARE BECOMING MORE IMPORTANT TO US AS MARKETS AND AS A SOURCE OF SUPPLIES OF BOTH MANUFACTURED GOODS AND RAW MATERIALS. IT IS IMPORTANT TO US AND TO THEM THAT THEY PLAY AN INCREASINGLY IMPORTANT ROLE IN TRADE NEGOTIATIONS AND THAT THEY PARTICIPATE MORE FULLY IN BOTH THE BENEFITS AND THE RESPONSIBILITIES OF THESE NEGOTIATIONS. YET WE MUST RECOGNIZE THE SPECIAL DEVELOPMENT NEEDS OF THE DEVELOPING COUNTRIES AND

PROVIDE AN EFFECTIVE MACHANISM FOR SPECIAL AND  
DIFFERENTIATED TREATMENT TO EASE THE SHOCKS TO  
THEM AS THEY GRADUALLY BECOME FULL AND RESPONSIBLE  
MEMBERS OF THE WORLD TRADING SYSTEM.

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EXDIS

DEPT PLEASE PASS ROGERS ON EUROPEAN TRIP

FOR ROGERS AND LORD ONLY FROM FRANK

CARACAS FOR CHARLES FRANK

18. INVESTMENT POLICY

19. INTERNATIONAL INVESTMENT FLOWS, LIKE  
INTERNATIONAL TRADE, CAN BE A SIGNIFICANT  
STIMULUS TO WORLD-WIDE ECONOMIC PROSPERITY.  
THE ENCOURAGEMENT OF INTERNATIONAL INVESTMENT  
BY LOWERING OF BARRIERS TO INTERNATIONAL  
INVESTMENT AND BY PROVIDING RULES OF THE GAME  
FOR FOREIGN INVESTORS AND FOR NATIONAL TREAT-  
MENT OF FOREIGN INVESTORS, IS A KEY ELEMENTS  
OF UNITED STATES FOREIGN ECONOMIC POLICY. THE  
UNITED STATES' OWN POLICY TOWARD FOREIGN  
INVESTORS IS TO PROVIDE THE SAME TREATMENT TO  
FOREIGN INVESTORS AS WE GIVE TO OUR OWN  
NATIONALS AND TO PROVIDE AN OPEN AND LIBERAL  
POLICY TOWARD FOREIGN INVESTMENT. THE PRESENCE

OF A GROWING NUMBER OF FOREIGN INVESTORS IN THE  
AMERICAN ECONOMY IS TESTIMONY TO THIS POLICY.

20. WE HOPE THAT OTHER COUNTRIES MAY PURUSE THE  
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SAME KIND OF OPEN INVESTMENT POLICY. WE RECOGNIZE,  
HOWEVER, THAT MANY COUNTRIES DO NOT SEE FOREIGN  
INVESTMENT IN THE SAME LIGHT AND ARE MORE  
SENSITIVE TO THE ISSUE OF THE EXENT TO  
WHICH FOREIGN INVESTMENT IS CONSISTENT WITH THE  
EXERCISE OF NATIONAL SOVEREIGNTY. WE DO NOT  
INTEND THEREFORE TO PUSH AMERICAN INVESTMENT  
OR AMERICAN INVESTORS IN FOREIGN COUNTRIES AS  
ONE OF OUR FOREIGN POLICY GOALS. WE DO BELIEVE, HOWEVER,  
THAT BOTH THE HOST COUNTRY AND THE INVESTING  
COUNTRY CAN BENEFIT FROM AN INTERNATIONAL  
ENVIRONMENT THAT IS CONDUCIVE TO FOREIGN  
INVESTMENT.

21. AMONG THE INDUSTRIALIZED COUNTRIES IN THE  
ORGANIZATION OF ECONOMIC COOPERATION AND  
DEVELOPMENT, WE HAVE ACHIEVED REMARKABLE PROGRESS  
IN THE NEGOTIATION OF AN INTERNATIONAL INVESTMENT  
CODE. THIS CODE PROVIDES VOLUNTARY GUIDELINES  
FOR TRANSNATIONAL ENTERPRISES AND THEIR BEHAVIOR  
IN HOST COUNTRIES. IT ALSO PROVIDES GUIDELINES  
FOR GOVERNMENTS IN THEIR TREATMENT OF FOREIGN  
INVESTORS AND IT PROVIDES A FRAMEWORK FOR THE  
DISCLOSURE OF INFORMATION ABOUT CORPORATE  
ACTIVITIES. THESE OECD GUIDELINES SHOULD HELP  
INVESTORS BY PROVIDING STANDARDS AGAINST WHICH  
THEY CAN JUDGE AND DEFEND THEIR OWN BEHAVIOR  
AND BY PROVIDING ENCOURAGEMENT FOR FAIR TREATMENT  
OF INVESTORS BY FOREIGN GOVERNMENTS. AT THE SAME  
TIME THESE GUIDELINES SHOULD HELP NATIONAL  
GOVERNMENTS BY PROMOTING RESPONSIBLE BEHAVIOR  
BY FOREIGN INVESTORS IN THE INTEREST OF THE HOST  
GOVERNMENT'S POLICIES AND PRIORITIES.

22. ANOTHER CRITICAL ELEMENT IN OUR EFFORTS  
TO PROMOTE A FAVORABLE CLIMATE FOR INVESTMENT  
IS A UNITED STATES PROPOSAL FOR A CONVENTION  
ON ILLICIT PAYMENTS. THIS PROPOSAL ORIGINALLY  
PUT FORWARD AT A UNITED NATIONS MEETING ON TRANS-  
NATIONAL ENTERPRISES HELD LAST MARCH IN LIMA,  
PERU. IT WAS THE SUBJECT OF INTENSE DEBATE AT THE  
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RECENT MEETING OF THE UNITED NATIONS ECONOMIC AND SOCIAL COUNCIL. ECOSOC HAS ESTABLISHED A WORKING PARTY WHICH WE HOPE WILL DRAFT AN AGREEMENT THAT SHOULD HELP DISCLOSURE OF INFORMATION RELATING TO ALL PAYMENTS MADE TO AGENTS OF VARIOUS SORTS. THESE DISCLOSURE PROVISIONS SHOULD HELP TO REDUCE THE INCIDENCE OF ILLICIT PAYMENTS WHICH OFFEND STANDARDS OF DECENCY AND FAIR PLAY AND POISON THE CLIMATE FOR INTERNATIONAL INVESTMENT AND TRADE.

23. AN INTERNATIONAL CONVENTION ON BRIBERY AND THE OECD INVESTMENT CODE ARE ONLY THE FIRST STEPS IN A BROADER APPROACH TO THE INVESTMENT ISSUE. THE UNITED STATES IS ALSO EXPLORING WITH OTHER NATIONS THE POSSIBILITY OF A BROADER SET OF VOLUNTARY GUIDELINES AND FOR GOVERNMENT TREATMENT OF INVESTORS. THIS BROADER SET OF GUIDELINES WOULD INVOLVE DEVELOPING AS WELL AS DEVELOPED COUNTRIES.

24. FINALLY, IN THE PARTICULARLY SENSITIVE FIELD OF INVESTMENTS IN NATURAL RESOURCES, THE UNITED STATES HAS PROPOSED AN INTERNATIONAL RESOURCES BANK WHICH WOULD PARTICIPATE IN NEGOTIATIONS OF NATURAL RESOURCE PROJECTS. ONE OF THE FUNCTIONS OF THIS BANK WILL BE TO USE ITS GUARANTEE FUNCTION TO PROVIDE INCENTIVES FOR ALL GUARANTEE FUNCTION TO PROVIDE INCENTIVES FOR ALL PARTIES IN THE CONTRACT TO ABIDE BY CONTRACT TERMS OR TO ADJUST TERMS UNDER SPECIFIED CONDITIONS. IN THIS MANNER EACH PARTY CAN BETTER EXPECT FAIR TREATMENT BY OTHER PARTIES TO THE CONTRACT AND WE MAY HOPE TO AVOID SO MANY INVESTMENT DISPUTES.

25. INVESTMENT DISPUTES BETWEEN PRIVATE INVESTORS AND HOST COUNTRY GOVERNMENTS ARE A SOURCE OF CONCERN TO THE UNITED STATES GOVERNMENT. THE BEST APPROACH TO THE PROBLEM OF INVESTMENT DISPUTES, WE BELIEVE, IS TO BUILD AN INTER-LIMITED OFFICIAL USE

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NATIONAL FRAMEWORK OF UNDERSTANDING, AGREEMENTS, AND INSTITUTIONS WHICH IS CONDUCIVE TO THE AVOIDANCE OF SUCH DISPUTES. WHEN DISPUTES ARISE, HOWEVER, THE UNITED STATES GOVERNMENT

TAKES SERIOUSLY ITS OBLIGATION TO PROTECT  
THE RIGHTS AND PROPERTY OF ITS CITIZENS IN  
OTHER COUNTRIES, AN OBLIGATION OF LONG  
TRADITION AND GREAT FORCE IN INTERNATIONAL  
LAW. WE MUST ACT JUDICIOUSLY,  
HOWEVER, IN PURSUIT OF THAT OBLIGATION; FOR WE  
RECOGNIZE THAT IN MANY INSTANCES IT IS FAR BETTER  
FOR THE UNITED STATES GOVERNMENT NOT TO BECOME  
INTIMATELY INVOLVED IN INVESTMENT DISPUTES, TO  
ALLOW THE PARTIES TO WORK OUT THEIR OWN SOLUTION  
TO THE PROBLEM, AND TO PRESERVE THE INTEGRITY AND  
FREEDOM OF THE PRIVATE ENTERPRISE.

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EXDIS

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FOR ROGERS AND LORD ONLY FROM FRANK

CARACAS FOR CHARLES FRANK

26. INTERNATIONAL MONETARY POLICY

27. THE UNITED STATES VIEW SON INTERNATIONAL  
MONETARY POLICY ARE CLEARLY COMPLIMENTARY TO OUR  
APPROACH TO INTERNATIONAL TRADE AND INVESTMENT. A  
HEALTHY AND WELL-FUNCTIONING INTERNATIONAL MONETARY  
SYSTEM IS ESSENTIAL TO THE SMOOTH AND EFFICIENT  
INTERNATIONAL FLOW OF GOODS, SERVICES, AND

INVESTMENTS. WE BELIEVE THAT THE CURRENT SYSTEM OF HIGHLY FLEXIBLE EXCHANGE RATES IS THE BEST THAT CAN BE ACHIEVED BY WAY OF FACILITATING INTERNATIONAL TRADE AND INVESTMENT. A SYSTEM OF FIXED PARITIES WOULD BE IMPOSSIBLE TO MAINTAIN FOR VERY LONG IN OUR HIGHLY INTERDEPENDENT WORLD. FIXED EXCHANGE RATES ARE UNSUSTAINABLE GIVEN THE GREAT DIFFERENCES AMONG NATIONS IN ECONOMIC PERFORMANCE AND POLICY, THE EASE WITH WHICH CAPITAL FLOWS AMONG COUNTRIES, AND THE GROWING ABILITY OF NATIONS TO SHIFT QUICKLY THEIR PATTERNS OF TRADE IN RESPONSE TO CHANGED LIMITED OFFICIAL USE

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ECONOMIC INCENTIVES. THESE DIFFERENCES AMONG ECONOMIES AND THEIR GROWING FLEXIBILITY TO ADJUST TO CHANGED INTERNATIONAL CIRCUMSTANCES WOULD LEAD TO RAPID AND RECURRENT UNDERMINING OF A FIXED SYSTEM OF EXCHANGE RATES, FREQUENT MONETARY CRISES ADDING TO ANY UNDERLYING POLITICAL INSTABILITY THAT MAY HAVE HELPED SPARK A CRISIS, AND FREQUENT RESORT BY GOVERNMENTS TO RESTRICTIONS ON TRADE AND PAYMENTS TO DEFEND A PARTICULAR EXCHANGE RATE PARITY.

28. A VERY IMPORTANT STEP IN PROVIDING A BASE OF LEGITIMACY FOR A FLEXIBLE INTERNATIONAL MONETARY SYSTEM WAS TAKEN AT THE IMF INTERIM COMMITTEE MEETING LAST JANUARY IN JAMAICA WHICH APPROVED AMENDMENTS TO THE ARTICLES OF THE IMF. WE HOPE FOR EARLY RATIFICATION OF THESE AMENDMENTS BY LEGISLATURES AROUND THE WORLD, INCLUDING THE UNITED STATES CONGRESS.

29. OUR DEDICATION TO A FLEXIBLE INTERNATIONAL MONETARY SYSTEM, HOWEVER, IS TEMPERED BY OUR RECOGNITION THAT THERE IS CONSIDERABLE ROOM FOR IMPROVEMENT. HIGHLY ERRATIC EXCHANGE RATES WHOSE MOVEMENTS DO NOT REFLECT DIFFERENCES IN UNDERLYING ECONOMIC TRENDS OR POLICIES ARE NOT CONDUCTIVE TO THE SMOOTH FLOW OF INTERNATIONAL TRADE AND INVESTMENT. UNDERTAIN EXCHANGE RATES COMPLICATE THE MAKING OF INTERNATIONAL BUSINESS DECISIONS AND THE DAILY CONDUCT OF INTERNATIONAL BUSINESS. THEY REQUIRE EXPANSIVE FORWARD CONTRACTING AND HEDGING TO AVOID EXCHANGE RATE LOSSES. AND THE LACK OF LONG FORWARD CONTRACTING OPPORTUNITIES INCREASES THE RISK OF INVESTMENT OR MARKETING CONTRACT DECISIONS FOR INTERNATIONAL BUSINESS ENTERPRISES. WE MUST FIND BETER MEANS OF CONTROLLING THESE

ERRATIC FLUCTUATIONS.

30. FURTHERMORE, A FLEXIBLE INTERNATIONAL MONETARY SYSTEM DOES NOT REDUCE, IN FACT MAY INCREASE, THE NEED FOR CLOSE CONSULTATION AMONG THE MAJOR WORLD LIMITED OFFICIAL USE

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ECONOMIES ON MATTERS OF ECONOMIC POLICY. SLIGHT DIFFERENCES IN INTEREST RATES, IN THE AVAILABILITY OF CREDIT, OR IN RATES OF INFLATION CAN STIMULATE VERY STRONG ACTIVITY IN EXCHANGE RATE MARKETS AND WIDE SWINGS ON EXCHANGE RATES. THE EFFECT OF INTERNAL ECONOMIC POLICY ON EXCHANGE RATES, ON INTERNATIONAL TRADE AND INVESTMENT DECISIONS, AND THEREFORE ON ECONOMIC ACTIVITY IN OTHER COUNTRIES MUST BE TAKEN INTO ACCOUNT SERIOUSLY IN GETTING NATIONAL POLICIES. IN A HIGHLY ECONOMICALLY INTERDEPENDENT WORLD, THE ECONOMIC ACTIONS OF ONE NATION VITALLY AFFECT THE WELFARE OF OTHERS. THE RESPONSIBILITY OF THE UNITED STATES IN THIS REGARD IS ESPECIALLY GREAT SINCE AS BY FAR THE LARGEST ECONOMY IN THE WORLD, OUR ACTIONS HAVE A FUNDAMENTAL EFFECT ON THE PROSPERITY OF OTHERS.

31. FINALLY, WE DO NOT YET FULLY UNDERSTAND THE ROLE OF INTERNATIONAL MONETARY RESERVES IN THE FUNCTIONING OF A HIGHLY FLEXIBLE INTERNATIONAL MONETARY SYSTEM. NOR DO WE UNDERSTAND THE RELATIONSHIP OF RESERVE HOLDINGS TO INTERNATIONAL LIQUIDITY OR TO THE WORLD-WIDE INFLATIONARY TENDENCIES WHICH HAVE BEEN SO PREVALENT IN RECENT YEARS. THE ROLE OF RESERVES IS A HIGHLY SENSITIVE ISSUE POLITICALLY. THE USE OF THE CURRENCY OF ANY ONE COUNTRY AS A RESERVE CURRENCY IS OFTEN PERCEIVED IN TERMS OF BOTH INTERNATIONAL EQUITY AND INTERNATIONAL PRESTIGE. WE MUST EXAMINE THIS ISSUE CAREFULLY AND THOROUGHLY, BEGINNING NOW IN ANTICIPATION THAT EVENTUALLY, AFTER THE JAMAICA AMENDMENTS TO THE IMF ARTICLES HAVE BEEN CONFIRMED, WE HAVE TO DEAL SERIOUSLY WITH THIS ISSUE.

32. NATURAL RESOURCE POLICY

33. THE PROBLEMS OF INTERNATIONAL TRADE, INVESTMENT, AND THE MONETARY SYSTEM ARE THE TRADITIONAL STUFF OF FOREIGN ECONOMIC POLICY. BUT INCREASING LIMITED OFFICIAL USE

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ATTENTION IS BEING PAID BY FOREIGN POLICY  
MAKERS AND ANALYSTS TO THE GROWING  
PROBLEMS OF ENERGY, FOOD, AND RAW MATERIALS.

34. SOME OF THE WORLD'S LIMITED NATURAL RESOURCES  
CAN BE DEVELOPED FOR MAN'S USE AT VERY LOW COST.  
OTHERS CAN BE DEVELOPED ONLY AT VERY HIGH COST.  
AS THE WORLD ECONOMY EDGES TOWARD HIGHER AND  
HIGHER COST NATURAL RESOURCE RECOVERY, THE  
PREMIUM GROWS ON EFFICIENT INVESTMENT, WISE  
USE, AND NEW TECHNOLOGIES TO DEVELOP NEW PROCESSES  
AND NEW SOURCES OF ENERGY, FOOD AND RAW MATERIALS.

35. WISE USE OF THE WORLD'S NATURAL RESOURCES  
MUST TAKE PLACE ON A WORLD-WIDE SCALE. NO ONE  
NATION HAS AN ABUNDANT ENDOWMENT OF ALL NATURAL  
RESOURCES, THE INVESTMENT FUNDS TO DEVELOP THEM,  
AND THE TECHNOLOGICAL AND MANAGERIAL CAPABILITIES  
TO PROCESS AND USE THEM. ONLY BY A WORLD-WIDE  
COOPERATIVE EFFORT CAN THE WORLD'S RESOURCES BE  
DEVELOPED EFFECTIVELY AND CAN ALL PEOPLES AND  
ALL NATIONS ACHIEVE THEIR MAXIMUM POTENTIAL FOR  
ECONOMIC GROWTH AND SOCIAL PROGRESS.

36. YET THE POLITICS OF WORLD RESOURCES PRESENT  
A CONSTANT CHALLENGE TO MAN'S ABILITY TO USE THEM  
WISELY FOR THE BENEFIT OF ALL. STRONG CONVICTIONS  
AND EMOTIONS RATHER THAN REASON AND RESPONSIBILITY  
OFTEN GUIDE DECISIONS IN THIS AREA.

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ACTION SS-25

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TO SECSTATE WASHDC IMMEDIATE 7161

INFO AMEMBASSY CARACAS IMMEDIATE

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EXDIS

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FOR ROGERS AND LORD ONLY FROM FRANK

CARACAS FOR CHARLES FRANK

37. WE CAN RESPECT A NATION'S DESIRE TO EXERCISE NATIONAL SOVEREIGNTY OVER ITS TERRITORY AND THE NATURAL RESOURCES WITH WHICH IT IS BLESSED. BUT THOSE BLESSINGS ARE ALSO A SACRED TRUST WHICH REQUIRES A SINCERE EFFORT TO DEVELOP THOSE RESOURCES IN A RESPONSIBLE MANNER.

38. THE UNITED STATES IS PARTICULARLY BLESSED. WE HAVE ENORMOUS DEPOSITS OF BASIC RAW MATERIALS, OUR AGRICULTURAL POTENTIAL IS UNPARALLELED, AND WE HAVE THE INVESTMENT, MANAGERIAL, AND TECHNOLOGICAL CAPABILITIES TO UTILIZE OUR RESOURCE POTENTIAL. YET THE UNITED STATES WOULD SUFFER ENORMOUS COSTS IN TERMS OF LOST ECONOMIC PROGRESS AND REDUCED SOCIAL WELFARE IF ALL NATIONS PURSUED A POLICY OF SELF-SUFFICIENCY. WE DEPEND ON OUR ACCESS TO WORLD MARKETS TO EXPORT ENORMOUS AMOUNTS OF AGRICULTURAL PRODUCTS AND SOME RAW MATERIALS. AND WE IMPORT A GROWING AMOUNT OF OUR BASIC RAW MATERIALS, PARTICULARLY METALS AND ORES, TROPICAL  
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AGRICULTURAL PRODUCTS AND ENERGY. BUT THE COSTS TO US OF AUTARCHIC POLICIES ARE VERY SMALL COMPARED TO WHAT THE COSTS WOULD BE TO OTHERS -- THE DEVELOPING COUNTRIES, EUROPE, AND JAPAN, WHO MUST DEPEND FAR MORE THAN WE ON IMPORTED FOOD AND RAW MATERIALS. IF THE UNITED STATES CAN PLAY A LEADING AND RESPONSIBLE ROLE IN THE CREATION OF AN INTERNATIONAL ENVIRONMENT, CONDUCIVE TO RATIONAL DEVELOPMENT OF THE WORLD'S RESOURCES, THERE IS HOPE THAT OTHERS MAY FOLLOW.

39. IN ENERGY, THE UNITED STATES ENTERTAINS NO UNREALISTIC EXPECTATIONS THAT WE CAN BECOME SELF-SUFFICIENT. YET WE ARE WELL-AWARE THAT THE OIL-EXPORTING COUNTRIES HAVE NOT ALWAYS BEHAVED RESPONSIBLY IN THEIR PRICING AND EXPORT DECISIONS. A NUMBER OF OIL PRODUCING COUNTRIES SEEM TO

BE QUITE WILLING TO USE THEIR CONTROL OVER ENERGY SUPPLIES FOR POLITICAL ENDS. THE PRICING POLICIES OF THE OIL PRODUCING AND EXPORTING COUNTRIES (OPEC) UNTIL RECENTLY HAVE BEEN EXTREMELY IRRESPONSIBLE, HELPING TO CREATE THE DEEPEST WORLDWIDE RECESSION SINCE THE THIRTIES AND TO TRIGGER AN INFLATIONARY SPIRAL FROM WHICH WE ARE STILL STRUGGLING TO RECOVER. THE SADDEST ASPECT OF THESE POLICIES WAS THE MOST SEVERE IMPACT IT HAD ON THE ECONOMIC PROSPECTS OF DEVELOPING COUNTRIES.

40. THE UNITED STATES IS MOVING RATHER VIGOROUSLY IN ITS ENERGY POLICY TO DEAL WITH THESE SERIOUS PROBLEMS.

41. FIRST, WE ARE PURSUING DOMESTIC MEASURES TO REDUCE OUR VULNERABILITY TO INTERNATIONAL PRICING AND SUPPLY DECISIONS. BY GRADUALLY LIFTING CONTROLS ON OIL AND NATURAL GAS PRICES TO STIMULATE SUPPLY AND REDUCE CONSUMPTION, BY SPURRING MORE RESEARCH INTO ALTERNATIVE ENERGY SOURCES, AND BY BUILDING A NATIONAL OIL STOCKPILE, WE CAN HELP REDUCE OUR VULNERABILITY.

42. SECOND, WE ARE PURSUING A COOPERATIVE EFFORT WITH OTHER INDUSTRIALIZED CONSUMING NATIONS TO REDUCE OUR COLLECTIVE VULNERABILITY TO MANIPULATION OF OIL SUPPLIES AND PRICES. WE HAVE PUT IN PLACE AN EMERGING OIL SHARING PLAN UNDER THE AUSPICES OF THE INTERNATIONAL ENERGY AGENCY LIMITED OFFICIAL USE

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(IEA). WITH THIS PLAN IN EFFECT, WE CAN REDUCE THE CHANCE THAT AN OIL EMBARGO WOULD BE DIRECTED AT ONE OR A FEW OF THE INDUSTRIALIZED COUNTRIES. WE HAVE ALSO EMBARKED UPON A PROGRAM OF COOPERATION IN RESEARCH AND INVESTMENT PROJECTS WITH OTHER INDUSTRIALIZED COUNTRIES UNDER IEA AUSPICES. AND WE HAVE NEGOTIATED A FINANCIAL SAFETY NET, THE OECD FINANCIAL SUPPORT FUND, WHICH WOULD ENABLE THOSE COUNTRIES WITH SERIOUS FINANCIAL PROBLEMS STEMMING FROM OIL PRICE INCREASES TO LOOK TO OTHER INDUSTRIALIZED COUNTRIES FOR FINANCIAL SUPPORT.

43. THIRD, WE ARE PURSUING A PROGRAM OF COOPERATION WITH THE NON-OIL DEVELOPING COUNTRIES. WE HAVE PROPOSED A MECHANISM, AN INTERNATIONAL ENERGY INSTITUTE, TO PROVIDE TECHNICAL ASSISTANCE AND COOPERATION IN TECHNOLOGY AND RESEARCH TO HELP THESE COUNTRIES DEVELOP APPROPRIATE ALTERNATIVE ENERGY SOURCES. WE HAVE ALSO PROPOSED THAT THE INTERNATIONAL RESOURCES BANK PROVIDE HELP FOR DEVELOPING COUNTRIES IN ATTRACTING INVESTMENTS IN ALTERNATIVE ENERGY SOURCES. BY COOPERATION WITH THE NON-OIL DEVELOPING COUNTRIES, WE HOPE TO MAKE THEM LESS VULNERABLE TO ARBITRARY DECISIONS BY OIL-EXPORTING COUNTRIES, REDUCE

THE MARKET FOR OPEC OIL, AND DIVERSIFY OUR IMPORTS OF OIL AWAY FROM THE OPEC COUNTRIES.

44. FOURTH, WE ARE TRYING TO DEVELOP A COOPERATIVE RELATIONSHIP WITH THE OIL EXPORTING NATIONS TO ENCOURAGE MORE RESPONSIBLE BEHAVIOR FROM THEM. WE ARE DOING THIS BILATERALLY THROUGH CLOSE CONSULTATIONS AND ECONOMIC COOPERATION WITH THE BUSINESS COMMUNITY IN THE CONTEXT OF JOINT COMMISSIONS. THROUGH THESE BILATERAL CONSULTATIONS, THE OIL-EXPORTING COUNTRIES CAN DEVELOP CLOSER ECONOMIC TIES WITH OUR COUNTRY AND GRADUALLY COME TO REALIZE THE IMPORTANT STAKE THAT THEY HAVE IN THE AMERICAN ECONOMY AND HARMONIOUS RELATIONS WITH US. WE ARE ALSO PURSUING THIS COOPERATION MULTILATERALLY THROUGH PRODUCER-CONSUMER TALKS IN PARIS UNDER THE AUSPICES OF THE CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION. IN THIS CONFERENCE, WE HAVE BEEN ABLE TO IMPRESS UPON MANY OIL-EXPORTING COUNTRIES, THE IMPORTANCE FOR THEM OF ECONOMIC GROWTH AND STABILITY OF THE INDUSTRIALIZED WORLD. IF WE LIMITED OFFICIAL USE

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SUFFER INFLATION AND RECESSION, MARKETS FOR THEIR OIL ARE REDUCED AND THE VALUE OF THEIR INVESTMENTS OF SURPLUS OIL FUNDS IS REDUCED. WE HAVE ALSO POINTED OUT THE SEVERE IMPACT THAT OIL PRICE INCREASES HAVE ON THE GROWTH PROSPECTS OF DEVELOPING COUNTRIES.

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INFO AMEMBASSY CARACAS IMMEDIATE



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EXDIS

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FOR ROGERS AND LORD ONLY FROM FRANK

CARACAS FOR CHARLES FRANK

45. THESE FOUR ASPECTS OF OUR ENERGY POLICY ARE COMPLEMENTARY. NO ONE CAN STAND ALONE. YET TOGETHER WE BELIEVE THEY HAVE BEEN QUITE SUCCESSFUL IN PROVIDING AN INTERNATIONAL ENVIRONMENT IN WHICH THE OPEC NATIONS HAVE FELT THE NEED TO ACT RESPONSIBLY ABOUT FURTHER PRICE INCREASES. SINCE -----, THE INTERNATIONAL PRICE OF OIL HAS ACTUALLY FALLEN IN REAL TERMS, BY SOME-----PERCENT. THIS SUCCESS IS RATHER REMARKABLE, ESPECIALLY IN VIEW OF THE RELUCTANCE OF THE UNITED STATES TO EMBARK ON AN AMBITIOUS DOMESTIC PROGRAM TOWARDS GREATER ENERGY SELF-SUFFICIENCY.

46. IN FOOD, UNITED STATES INTERNATIONAL POLICY IS DIRECTED AT THREE MAIN GOALS:

47. --MAXIMIZING THE UNITED STATES CONTRIBUTION TO WORLD FOOD SUPPLIES;

47. --IMPROVING THE CAPABILITIES OF THE DEVELOPING COUNTRIES TO PRODUCE THEIR OWN FOOD; AND

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48. --REDUCTION OF THE INSTABILITY IN WORLD FOOD PRICES AND SUPPLIES.

A MAJOR PROBLEM FACED BY THE WORLD AND BY US IS THE NEED TO MEET THE RAPIDLY GROWING WORLD FOOD REQUIREMENTS. RAPID POPULATION GROWTH AND INCREASES IN INCOMES HAVE GREATLY EXPANDED THE WORLD'S DEMAND FOR FOOD IN RECENT YEARS. THIS TREND WILL CONTINUE FOR AT LEAST THE NEXT TEN YEARS. WE WILL NEED TO ASSURE MASSIVE INCREASES IN WORLD FOOD SUPPLIES IF THESE DEMANDS ARE TO BE MET.

49. THE UNITED STATES IS UNPARALLELED IN ITS ABILITY TO PRODUCE FOOD CHEAPLY AND ABUNDANTLY. WE HAVE ELIMINATED MOST OF THE GOVERNMENT CONTROLS ON UNITED STATES FOOD PRODUCTION AND WE HAVE ENERGETICALLY SOUGHT INTERNATIONAL MARKETS FOR THIS PRODUCTION POTENTIAL. ONE OF OUR MAJOR OBJECTIVES IN THE INTERNATIONAL TRADE NEGOTIATIONS IS TO OPEN UP MARKETS FOR GRAINS AND OTHER AGRICULTURAL PRODUCTS.

OUR EXTRAORDINARY PRODUCTIVE CAPABILITY IS REFLECTED IN OUR ABILITY TO PROVIDE ABOUT 6 MILLION TONS OF FOOD AID IN RECENT YEARS, OR 60 PERCENT OF THE WORLD FOOD AID TARGET. THIS HAS BEEN A MAJOR CONTRIBUTION, ALONG WITH OUR MUCH LARGER COMMERCIAL SALES, TO MEETING THE SHORT-TERM FOOD DEFICIT OF THE DEVELOPING COUNTRIES.

50. IN THE LONG RUN, HOWEVER, THE FOOD DEFICITS OF DEVELOPING COUNTRIES WILL HAVE TO BE MET INCREASINGLY BY EXPANDED FOOD PRODUCTION IN THE DEVELOPING COUNTRIES. WE ARE ENCOURAGING EXPANDED FOOD PRODUCTION IN THE DEVELOPING COUNTRIES IN MANY WAYS--THROUGH EXPANDED BILATERAL AID FOR AGRICULTURAL DEVELOPMENT, THROUGH SUPPORT FOR THE WORLD BANK AND THE REGIONAL DEVELOPMENT BANKS IN THEIR EXPANDED AGRICULTURAL ACTIVITIES, AND THROUGH A 200 MILLION DOLLAR CONTRIBUTION TO THE INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT.

51. EXPANDING FOOD PRODUCTION IS ONE ASPECT OF THE WORLD FOOD PROBLEM. THE OTHER IMPORTANT ASPECT IS THE ENORMOUS INSTABILITY IN WORLD FOOD PRICES AND SUPPLIES. THIS INSTABILITY FRUSTRATES AND HURTS THE AMERICAN CONSUMER AND FARMER, BUT IT IS A MATTER OF LIFE AND DEATH FOR LIMITED OFFICIAL USE

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THE MILLIONS OF PEOPLE ON THE BARE EDGE OF SUBSISTENCE IN THE DEVELOPING WORLD. FOR THEM A RISE IN THE PRICE OF FOOD OR A DECREASE IN ITS AVILABILITY MAY MEAN STARVATION OR SEVERE MALNUTRITION.

52. A MAJOR SOURCE OF INSTABILITY IN WORLD GRAIN MARKETS HAS BEEN THE INSTABILITY OF PRUCHASES BY THE SOVIET UNION. THEIR PURCHASES ARE SO LARGE AND HAVE BEEN SO ERRATIC THT THIS ADMINISTRATION COULD NO LONGER TOLERATE THIS TYPE OF MARKET BEHAVIOR WHICH IS INJURIOUS TO FARMER AND CONSUMERS ALIKE. THUS IN THE FALL OF LAST YEAR, THE UNITED STATES AND THE SOVIET UNION NEGOTIATED AN AGREEMENT WHICH REQUIRES THE SOVIET UNION TO PURCHASE AT LEAST 6 MILLION TONS OF GRAIN EACH YEAR AND TO CONSULT WITH THE UNITED STATES GOVERNMENT IF IT INTENDS TO PURCHASE MORE THAN 9 MILLION TONS IN ANY ONE YEAR. THE SOVIET UNION IS THUS ENCOURAGED TO EVEN OUT ITS PURCHASES FROM YEAR TO YEAR AND TO BUILD STORAGE FACILITIES TO TIDE THEM OVER FROM BAD YEARS TO GOOD.

53. ANOTHER ESSENTIAL ELEMENT OF UNITED STATES FOOD POLICY DESIGNED TO REDUCE FLUCTUATIONS IN PRICES AND SUPPLIES IS A PROPOSAL FOR AN INTERNATIONAL SYSTEM OF GRAIN RESERVES, FIRST PUT FORWARD BY SECRETARY KISSINGER AT THE WORLD FOOD CONFERENCE IN NOVEMBER 1974. THIS

PROPOSAL IS AN ESSENTIAL ELEMENT OF A COMPREHENSIVE APPROACH TO WORLD FOOD PROBLEMS AND WE HAVE BEEN GREATLY DISAPPOINTED IN THE LACK OF PROGRESS ON THIS PROPOSAL IN THE DISCUSSIONS IN LONDON UNDER THE AUSPICES OF THE INTERNATIONAL WHEAT COUNCIL.

54. IN RAW MATERIALS, THE UNITED STATES CONCERN IS FOCUSED IN THREE PROBLEM AREAS:

55. --THE NEED TO IMPROVE THE FUNCTIONING AND STABILITY OF RAW MATERIALS MARKETS;

56. --THE NEED TO ASSURE EFFICIENT INVESTMENT IN AND WISE USE OF RAW MATERIALS TO ASSURE LONG-RUN SUPPLIES; AND

57. --THE NEED TO ENHANCE THE STABILITY AND GROWTH OF LIMITED OFFICIAL USE

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PURCHASING POWER OF EXPORT EARNINGS OF DEVELOPING COUNTRIES ESPECIALLY DEPENDENT ON RAW MATERIALS EXPORTS. PRICES AND SUPPLIES OF INDIVIDUAL COMMODITIES HAVE EXHIBITED VERY ERRATIC FLUCTUATIONS. THESE FLUCTUATIONS ARE IN THE INTEREST OF NEITHER PRODUCERS AND CONSUMERS THEY LEAD TO CONSUMER UNCERTAINTY AND INEFFICIENCY OF INVESTMENT DECISIONS. THEY HELP KINDLE INFLATIONARY BURSTS. WE ARE ENGAGED IN A PROCESS OF CASE-BY-CASE EXAMINATION OF 18 INDIVIDUAL COMMODITIES UNDER UNCTAD AUSPICES. WE ARE ALSO COMMITTED TO ENGAGE IN AN UNCTAD-SPONSORED PREPARATORY MEETING FOR NEGOTIATIONS ON A COMMON FUND, A MECHANISM DESIGNED PRIMARILY TO FINANCE BUFFER STOCKS. IN THESE NEGOTIATIONS AND DISCUSSIONS, OUR PRIMARY AIM IS TO FIND WAYS TO IMPROVE THE FUNCTIONING OF COMMODITY MARKETS AND TO REDUCE UNNECESSARY FLUCTUATIONS IN RAW MATERIALS PRICES. WE WILL NOT SUPPORT COMMODITY AGREEMENTS DESIGNED TO FIX PRICES, COUNTER TO MARKET TRENDS, AND TO USE PRICE-FIXING AGREEMENTS TO TRANSFER RESOURCES TO DEVELOPING COUNTRIES.

58. THE COMMODITY PROBLEMS OF DEVELOPING COUNTRIES, WE BELIEVE, ARE BETTER APPROACHED BY EMPHASIZING ALTERNATIVE TECHNIQUES, NOT PRICE-FIXING COMMODITY AGREEMENTS. AT THE UNCTAD IV MEETING IN NAIROBI LAST MAY, SECRETARY KISSINGER PROPOSED A COMPREHENSIVE COMMODITY PROGRAM. IT CONTAINED, IN ADDITION TO A CASE-BY-CASE APPROACH TO COMMODITY ARRANGEMENTS;

59. --LOWERING OF BARRIERS TO PROCESSING OF RAW MATERIALS IN DEVELOPING COUNTRIES;

60. --IMPROVED PRODUCTIVITY AND COMPETITIVENESS OF

RAW MATERIALS PRODUCED BY DEVELOPING COUNTRIES;

61. --EFFORTS TO HELP COUNTRIES PRODUCING RAW MATERIALS  
WITH DECLINING MARKETS TO DIVERSIFY PRODUCTION;

62. --IMPROVEMENTS IN THE STABILITY OF EXPORT EARNINGS  
OF DEVELOPING COUNTRIES; AND

63. --AN INCREASED FLOW OF CAPITAL MANAGEMENT AND  
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TECHNOLOGY INTO RAW MATERIAL INVESTMENTS IN DEVELOPING  
COUNTRIES.

64. WE BELIEVE THAT THE COMBINATION OF THESE POLICIES  
SHOULD ENHANCE THE PURCHASING POWER OF THE EXPORTS OF  
DEVELOPING COUNTRIES MUCH MORE EFFECTIVELY THAN PRICE  
FIXING MEASURES. THESE MEASURES ARE ALSO DESIGNED  
TO PROVIDE MUTUAL BENEFITS FOR BOTH DEVELOPED AND DEVEL-  
OPING COUNTRIES AND TO PROVIDE LONG-RUN ASSURANCES OF  
SUPPLY OF BASIC AND PROCESSED RAW MATERIALS--ASSURANCES  
NECESSARY TO A HEALTHY AND EXPANDING WORLD ECONOMY.

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EXDIS

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CARACAS FOR CHARLES FRANK

65. THE LOWERING OF BARRIERS TO PROCESSING OF RAW MATERIALS IS BEING PURSUED VIGOROUSLY IN THE MULTILATERAL TRADE NEGOTIATIONS IN GENEVA. WE SEE THE WORLD BANK AND REGIONAL DEVELOPMENT BANKS AS PROVIDING THE SUPPORT FOR SCHEMES TO INCREASE PRODUCTIVITY AND COMPETITIVENESS OF LDC RAW MATERIALS AND DIVERSIFICATION PROGRAMS. THE UNITED STATES PROPOSED A MAJOR EXPANSION OF THE IMF COMPENSATORY FINANCE FACILITY TO HELP STABILIZE THE EXPORT EARNINGS OF DEVELOPING COUNTRIES. THIS YEAR ALONE, THIS EXPANDED FACILITY MAY LEND CLOSE TO DOLS 2 BILLION AND THE UNITED STATES PROPOSAL FOR AN INTERNATIONAL RESOURCES BANK IS DESIGNED TO INCREASE THE PROPORTION OF RAW MATERIALS INVESTMENTS TAKING PLACE IN DEVELOPING COUNTRIES.

66. THE SAME OBJECTIVES AND PHILOSOPHY WHICH GUIDE US WIT REGARD TO DEVELOPMENT OF LAND-BASED NATURAL RESOURCES ALSO GUIDE US WITH RESPECT TO THE LIMITED OFFICIAL USE

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RESOURCES OF THE SEA. THE SEA'S RESOURCES ARE A BLESSING TO ALL OF US AND A TRUST TO THOSE WHO LEAVE ACCESS TO OUR SOVEREIGNTY OVER THEM. WE PLACE A HIGH PRIORITY ON A SUCCESSFUL NEGOTIATION OF A LAW OF THE SEA TREATY, WHICH IS OF SPECIAL IMPORTANCE IN PROVIDING A STABLE INTER-NATIONAL REGIME FOR EXPLOITATION OF THE WORLD'S FISHERIES AND DEEP SEABED MINERALS.

67. REGIONAL POLICIES

68. THE WORLD'S INTERNATIONAL ECONOMIC RELATIONS, BY HAPPENSTANCE AND POLITICS, HAVE TENDED TO DIVIDE THEMSELVES ALONG THREE DIFFERENT AXIS, PARTLY REGIONAL AND PARTLY IDEOLOGICAL IN ORIGIN. THESE ARE:

69.-- NORTH-NORTH OR RELATIONS AMONG THE INDUSTRIALIZED DEMOCRACIES;

70. -- EAST-WEST OR RELATIONS AMONG THE INDUSTRIALIZED DEMOCRACIES AND

THE COMMUNIST COUNTRIES; AND

71. -- NORTH-SOUTH OR RELATIONS AMONG THE  
INDUSTRIALIZED DEMOCRACIES AND  
DEVELOPING COUNTRIES.

72. IN THE CRITICAL AREAS OF TRADE, INVESTMENT,  
AND INTERNATIONAL MONETARY AFFAIRS, NORTH-NORTH  
COOPERATION OR COOPERATION AMONG THE INDUSTRIAL-  
IZED DEMOCRACIES IS ESSENTIAL. WE HAVE A GOOD  
RECORD OF CLOSE CONSULTATION ON ENERGY MATTERS  
THROUGH THE INTERNATIONAL ENERGY AGENCY. THE  
UNITED STATES IS ESPECIALLY COMMITTED TO INCREASED  
CONSULTATION AMONG THE INDUSTRIALIZED COUNTRIES  
CONCERNING THEIR DOMESTIC ECONOMIC POLICIES.  
WE ALSO FEEL THAT IT IS VERY IMPORTANT FOR US  
TO CONSULT CLOSELY CONCERNING OUR ECONOMIC  
POLICIES TOWARD THE COMMUNIST COUNTRIES AND  
TOWARD THE DEVELOPING COUNTRIES. UNLESS WE  
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COORDINATE MORE CLOSELY WE WILL FIND OURSELVES  
COMPETING FOR FAVOR AND SUPPORTING POLICIES  
THAT ARE UNSOUND AND CERTAIN TO DIVIDE THE  
INDUSTRIALIZED WORLD.

73. THE CLOSE CONSULTATION AND COORDINATION WHICH  
WE SEEK AMONG THE INDUSTRIALIZED COUNTRIES  
HAS A POLITICAL AS WELL AS AN ECONOMIC DIMENSION.  
OUR EFFORTS TO WORK TOGETHER IS AN IMPORTANT ELEMENT  
IN OUR DESIRE TO BUILD CLOSE RELATIONSHIPS AND  
STRENGTHEN ALLIANCES AMONG THE INDUSTRIALIZED  
DEMOCRACIES OF EUROPE, JAPAN, NORTH AMERICA, AND  
THE PACIFIC.

74. ECONOMIC RELATIONS BETWEEN EAST AND WEST ARE  
AN IMPORTANT COMPONENT OF OUR GENERAL POLICY OF  
DETENTE. ACCESS TO OUR MARKETS, OR TECHNOLOGY,  
OUR MANAGERIAL COMPETENCE, AND OUR CREDITS IS  
ESSENTIAL TO THE HEALTH AND VIGOR OF THE  
COMMUNIST COUNTRIES. THEIR ECONOMIES CANNOT GENERATE  
THE SYNERGISM THEY NEED TO SATISFY GROWING CONSUMER  
DEMANDS IN THE SOVIET UNION AND EASTERN EUROPE  
UNLESS THEY HAVE CLOSE ECONOMIC TIES WITH THE  
WEST. WE HAVE MUCH TO GAIN ALSO BY OPENING  
OURSELVES TO GROWING ECONOMIC INTERCOURSE WITH  
THE EAST, PARTICULARLY BY INCREASING MARKETS  
FOR OUR GOODS AND PROVIDING JOBS IN OUR EXPORT  
INDUSTRIES. BUT CLEARLY THE EAST NEEDS THE WEST  
MORE THAN WE NEED THEM AS A SOURCE OF ECONOMIC

VITALITY. THIS IS WHY WE SEE OUR ABILITY TO  
OPEN UP OUR ECONOMIES TO THE EAST AS AN  
IMPORTANT INFLUENCE IN MODERATING POLITICAL  
BEHAVIOR OF THE EAST. AS THEY BECOME MORE  
ECONOMICALLY DEPENDENT ON THE WEST, THEY INCREASE  
THEIR STAKE IN HARMONIOUS RELATIONS WITH THE WEST  
AND INCREASE THE PRICE OF A RUPTURE IN RELATIONS.

75. RELATIONS BETWEEN NORTH AND SOUTH HAVE OCCUPIED  
THE INCREASING ATTENTION AND CONCERN OF FOREIGN  
POLICY MAKERS. RELATIONS HAD BEEN DETERIORATING  
OVER MANY YEARS AND REACHED A CLIMAX OF BAD FEELINGS  
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AND BREAKDOWN IN COMMUNICATION IN APRIL 1974  
WHEN THE DEVELOPING COUNTRIES TORPEDOED THE  
PREPARATORY MEETING OF THE PRODUCER/CONSUMER DIALOGUE  
BECAUSE OF THEIR DEMANDS THAT WE PAY GREATER NEED  
TO THEIR DEVELOPMENT PROBLEMS. A SPEECH BY  
SECRETARY HENRY KISSINGER TO THE SEVENTH SPECIAL SESSION OF  
THE UNITED NATIONS GENERAL ASSEMBLY STATED OUT A  
COMPLETELY NEW POLICY FOR THE UNITED STATES AND  
OFFERED SOME 40 PROPOSALS TO WORK CONSTRUCTIVELY  
AND COOPERATIVELY ON PROBLEMS OF  
DEVELOPMENT.

76. THE SECRETARY'S SEVENTH SPECIAL SESSION SPEECH  
OPENED THE WAY FOR THE RESUMPTION OF PRODUCER/  
CONSUMER TALKS AND IN DECEMBER LAUNCHED THE  
PARIS CONFERENCE ON INTERNATIONAL ECONOMIC  
COOPERATION WITH FOUR COMMISSIONS DEALING WITH  
ENERGY, RAW MATERIALS, DEVELOPMENT, AND FINANCE.  
AFTER A CONSTRUCTIVE AND WORKMANLIKE SIX MONTHS  
OF MEETINGS DURING AN ANALYTIC PHASE OF THE  
CONFERENCE'S WORK, THE CONFERENCE WAS TO SPEND  
THE SECOND SIX MONTHS OF ITS LIFE IN AN ACTION  
ORIENTED PHASE. THIS CONFERENCE, HOWEVER, HAS  
REACHED AN IMPASSE OVER THE WORDING OF AN AGENDA  
FOR THE SECOND HALF OF THE YEAR. WE BELIEVE THAT  
THE CONFERENCE CAN ACCOMPLISH CONCRETE AND USE-  
FUL RESULTS IF IT IS RESUMED, BUT WE WILL NOT  
PREJUDICE THE RESULTS OF THE NEGOTIATIONS BY A  
NON-NEUTRALLY PHRASED WORK PROGRAM.

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77. OUR GENERAL APPROACH TO NORTH-SOUTH RELATIONS IS BASED ON THE BELIEF THAT WE MUST CREATE AN INTERNATIONAL ECONOMIC SYSTEM WHICH ENHANCES THE DEVELOPMENT OPPORTUNITIES OF THE POORER COUNTRIES AND ENABLES THEM TO SHARE EQUITABLY IN THE BENEFITS OF AN EXPANDING AND PROSPEROUS WORLD ECONOMY. UNLESS WE CREATE THESE OPPORTUNITIES, WE ARE DOOMED TO A WORLD OF GROWING CONFLICT AND BITTERNESS NOT CONDUCIVE TO PEACEFUL RESOLUTION OF PROBLEMS AND DISPUTES. OUR APPROACH TO DEVELOPMENT HAS THE FOLLOWING ELEMENTS:

78. --MAINTAINING AND IMPROVING ACCESS TO OUR MARKETS FOR GOODS PRODUCED BY DEVELOPING COUNTRIES. MARKET ACCESS IS ESSENTIAL TO THEIR ABILITY TO EARN THE FOREIGN EXCHANGE NECESSARY TO PAY FOR IMPORTS OF CAPITAL GOODS AND RAW MATERIALS NEEDED TO FUEL THE DEVELOPMENT PROCESS

79. --INCREASING THE FLOW OF CONCESSIONAL DEVELOPMENT ASSISTANCE, BOTH MULTILATERALLY AND BILATERALLY, DIRECTING THAT ASSISTANCE  
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AT THE POOREST PEOPLE AND THE POOREST REGIONS, AND BY ASSISTING



KEY DEVELOPMENT SECTORS SUCH AS AGRICULTURE, EDUCATION, AND  
POPULATION

80. --MAINTENANCE AND IMPROVEMENT OF ACCESS TO OUR CAPITAL  
MARKETS. THIS IS ESSENTIAL FOR THE MIDDLE RANGE OF DEVELOPING  
COUNTRIES, NOT POOR ENOUGH TO QUALIFY FOR LARGE AMOUNTS OF  
CONCESSIONAL AID YET IN NEED OF LARGE AMOUNTS OF FOREIGN  
CAPITAL TO FINANCE DEVELOPMENT. ACCESS TO OUR CAPITAL MARKETS  
IS BOTH DIRECT BY DEVELOPING COUNTRIES THEMSELVES OR INDIRECT  
THROUGH THE INTER-MEDIATION OF THE WORLD BANK AND THE REGIONAL  
DEVELOPMENT BANKS

81. --INCREASING POTENTIAL FOR BALANCE OF PAYMENTS SUPPORT  
THROUGH THE INTERNATIONAL MONETARY FUND. AT THE IMF MEETINGS  
IN JAMAICA IN JANUARY, THE FUND'S CAPABILITIES TO PROVIDE BALANCE  
OF PAYMENTS SUPPORT FOR DEVELOPING COUNTRIES WERE EXPANDED  
SIGNIFICANTLY. REGULAR CREDIT TRANCHES WERE EXPANDED BY 37.5  
PERCENT. THE COMPENSATORY FINANCE FACILITY WAS GREATLY LIBER-  
ALIZED. AND A TRUST FUND PROPOSED BY SECRETARY KISSINGER AT THE  
SEVENTH SPECIAL SESSION WAS ESTABLISHED TO PROVIDE BALANCE  
OF PAYMENTS SUPPORT FOR THE POOREST DEVELOPING COUNTRIES

82. --A SYMPATHETIC APPROACH TO ASSISTING COUNTRIES WITH  
ACUTE ECONOMIC AND FINANCIAL PROBLEMS, ESPECIALLY WHEN THESE  
DIFFICULTIES THREATEN INTERNAL OR REGIONAL STABILITY.

83. END OF TEXT.

84. THE SPEECH NEEDS A CONCLUSION.  
CRIMMINS

NOTE BY ANALYSIS: BRASILIA 6861 SEC 8/8 - SECTION INFO NOT RECOGNIZED,  
PLS FIX AND RE ENTER ASAP, TNKS, 8/5/AAL

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** FOREIGN POLICY POSITION, SPEECHES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 05 AUG 1976  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** saccheem  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976BRASIL06861  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** n/a  
**Film Number:** D760376-0103  
**From:** BRASILIA  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1976/newtext/t19760881/aaaactoo.tel  
**Line Count:** 1335  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION SS  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** ONLY  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 25  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** ONLY <MCM 20040601 CORRECTED>; ONLY, EXDIS  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** saccheem  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 20 APR 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <20 APR 2004 by BoyleJA>; APPROVED <23 AUG 2004 by saccheem>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** <DBA CHANGED> MCM 20040601  
**Subject:** DRAFT SPEECH ON FOREIGN ECONOMIC POLICY  
**TAGS:** PFOR, EGEN  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006